

BM

FOREIGN POLICY REPORTS

March 1, 1942

IB

Economic Projects for Hemisphere Development

BY JOHN C. deWILDE

EAST CLEVELAND
PUBLIC LIBRARY

PUBLISHED TWICE A MONTH BY THE

Foreign Policy Association, Incorporated

MIDSTON HOUSE, 22 EAST 38th STREET, NEW YORK, N. Y.

VOLUME XVII NUMBER 24 25¢ a copy \$5.00 a year

Economic Projects for Hemisphere Development

BY JOHN C. DEWILDE, former research associate of the Association

NOW that the United States is engaged in a world-wide war, its economic relations with Latin America are dominated by the need to develop in the Western Hemisphere all possible sources of strategic materials essential for carrying on the conflict. The present effort to make Latin America an integral part of the "arsenal of democracy," however, must be viewed against the background of long-term plans which had previously been conceived for the purpose of diversifying and developing the economic life of the nations to the south.

Generally speaking, the economy of Latin America had long been oriented toward the production and exportation of a relatively few mineral and agricultural staples. A large part of these raw materials and foodstuffs had been marketed in Europe. Manufactures, primarily of consumers' goods, had been developed extensively in Brazil, Argentina, Chile and Mexico, but not on a scale sufficient to dispense with sizeable imports or to affect markedly the concentration on production of primary materials. The prolonged depression of the thirties and the outbreak of war in September 1939 brought about a gradual change. Drastic curtailment of export outlets, which continued until the United States began to increase its purchases in Latin America toward the end of 1940, crystallized the latent dissatisfaction of many Latin Americans with the basic economic structure of their countries. It aroused a desire for emancipation from the "colonial" type of economy, greater diversification of production, and fuller utilization of all available resources for the benefit of the native populations, rather than of foreign powers.

TECHNICAL AGRICULTURAL AID

The United States has on the whole been sympathetic with this desire. It has shown particular interest in encouraging Latin America to cultivate agricultural products not competitive with those

of North America, and in permanently reducing the reliance of Latin American countries on trade with the European continent. This study examines the measures of a more or less long-term character taken by the United States in recent years to help Latin America achieve a fuller and more balanced development of its resources. At the same time, it notes the effect that the war has had or may have on this type of assistance to Latin American countries.

The countries to the south have been able to draw freely on the United States for expert advice and counsel in developing their resources. In the period 1938-40 United States experts made agricultural surveys for the governments of the Dominican Republic, Haiti, Paraguay, Ecuador and Colombia. During 1941 aid of this character was given on a much greater scale than ever before. In January a mission was sent to Cuba to conduct a survey of that island's agriculture, and to suggest, in particular, measures to promote cultivation of non-competitive crops, establishment of irrigation works, and development of a system of rural rehabilitation.¹ In May the Department of Agriculture, acting on the invitation of the Mexican government, dispatched two specialists to Mexico and Central America to investigate the possibility of growing in these countries tropical products which the United States normally imports from more distant sources.² Still later, in December, a Soil-Conservation Mission left for Venezuela.³ In Ecuador a group of United States government experts, including specialists on soils and soil conservation, marketing, animal husbandry and rubber, has been surveying agricultural resources. Two other plant experts of the United States have studied Peru's agricultural potentialities for the Peruvian government. Missions with a broader scope have also been sent. One has made

1. *Department of State Bulletin*, January 25, 1941.

2. *Department of Agriculture, Press Release*, May 15, 1941.

3. *Department of State Bulletin*, December 6, 1941.

FOREIGN POLICY REPORTS, VOLUME XVII, NUMBER 24, MARCH 1, 1942

Published twice a month by the FOREIGN POLICY ASSOCIATION, Incorporated, 22 East 38th Street, New York, N. Y., U.S.A. FRANK ROSS MCCOY, *President*; WILLIAM P. MADDOX, *Assistant to the President*; JOHN I. B. MCCULLOCH, *Acting Director of the Washington Office*; VERA MICHELES DEAN, *Editor and Research Director*; DAVID H. POPPER, *Associate Editor and Research Associate*; HELEN TERRY, *Assistant Editor*. *Research Associates*: ERNEST S. HEDIGER, LOUIS E. FRECHTLING, MARGARET LA FOY, HELEN H. MOORHEAD, ONA K. D. RINGWOOD. Subscription Rates: \$5.00 a year; to F.P.A. members \$3.00; single copies 25 cents. Entered as second-class matter on March 31, 1931 at the post office at New York, N. Y., under the Act of March 3, 1879.



Produced under union conditions and composed, printed and bound by union labor.

a survey of the sea-fishery resources of Peru and proposed recommendations for improvement.⁴ Another mission has gone to Bolivia to make a thorough technical and economic study of that country's communication needs and agricultural and mineral potentialities.⁵

INSTITUTE OF TROPICAL AGRICULTURE

To promote agricultural cooperation an Inter-American Institute of Tropical Agriculture is being established. The organization of this Institute, which was suggested by Vice-President Wallace when he was Secretary of Agriculture and endorsed by the Eighth American Scientific Congress in May 1940, has been undertaken by the Inter-American Commission on Tropical Agriculture, appointed by the Governing Board of the Pan American Union. A special Division of Agriculture, headed by Dr. Earl N. Bressman, was created in the Office of the Coordinator of Inter-American Affairs in September 1941 to help in setting up and operating the Institute. Proposed sites have been surveyed by a party of United States scientists, and formal establishment of the Institute is expected in the near future. The Institute, which will be a combined school and experiment station, will try to promote a better balanced agriculture in the Western Hemisphere, collect data on the agricultural problem of the American republics, develop a broad knowledge of tropical agricultural pests and diseases, and assist in the solution of serious problems in crop and animal production.⁶

DIVERSIFICATION OF AGRICULTURE

One of the objectives of inter-American cooperation in the agricultural field is to stimulate production of a wider variety of foodstuffs, as a means of raising the standards of nutrition prevailing in large sections of Latin America. Early in 1941, for example, an Inter-American Committee for the Dairy Industries was organized to "increase the consumption of dairy products" and "decrease the production of agricultural surpluses" in Latin American countries. This Committee, which was established on the initiative of the Dairy Industries Supply Association in cooperation with the American governments, has a Governing Board consisting of United States officials and representatives of the Pan American Union, as well as a Council of Sponsors including fifteen American Ministers of Agriculture. It has been surveying dairy indus-

tries throughout Latin America and gathering information regarding their further development. After six months of work, the Committee reported that its objectives appeared to be of "great significance to the health of the infants and children of the Americas, to the social welfare of the entire population of the Hemisphere and to agricultural and industrial advance in all lands of the West."⁷ At present, dairying in Latin America is little developed except in Argentina, Brazil and parts of other countries. Much educational and other work must be accomplished before substantial progress can be made. Plans for the development of dairy industries in the Bogotá area of Colombia are now under way.⁸

U.S.-HAITI AGREEMENT

Another objective of United States policy has been to foster cultivation and manufacture of non-competitive products for sale in this country. One of the most interesting projects in this direction has been the agreement with Haiti, announced on May 6, 1941, "regarding a long-term program of cooperation in the development of Haitian agriculture and economy." The program, which is based on many surveys and long experimentation by the U.S. Department of Agriculture, involves "a broad plan of rubber developments; an increase in banana plantings; the planting of oil crops, spices, drug plants, food plants, and fiber plants; cacao improvement; the development of Haitian forestry resources; and the stimulation of small handicraft industries."⁹ Financed by a \$5,000,000-loan from the Export-Import Bank, it is being carried out by the *Société Haïtienne-Américaine de Développement Agricole* which began business on August 16, 1941, with Thomas A. Fennell, agricultural adviser to the Haitian government, as president and general manager, and a board of directors composed equally of Haitian and United States citizens.¹⁰

The central feature of the Haitian plan is the production of rubber. Numerous surveys and studies have disclosed that climatic and soil conditions are suitable for the cultivation of rubber; and there is a plentiful supply of labor. The company decided to plant immediately 7,500 acres of rubber in four different areas, and is aiming at an ultimate goal of 70,000 acres of high-yielding rubber strains which, when in full production, may yield nearly 35,000 tons annually—an amount representing more

4. For details of this mission, see *ibid.*, February 1, 1941.

5. See *Agriculture in the Americas*, December 1941.

6. Office of the Coordinator of Inter-American Affairs, *Press Release 70*, September 26, 1941; also *Agriculture in the Americas*, October 1941.

7. *Agriculture in the Americas*, August 1941, p. 16.

8. *Foreign Crops and Markets*, September 8, 1941, p. 289, and December 15, 1941, pp. 770-71.

9. *Department of State Bulletin*, May 10, 1941.

10. *Agriculture in the Americas*, October 1941, p. 9.

than 5 per cent of total United States rubber consumption in a normal year.¹¹

DEVELOPMENT OF PLANTATION RUBBER

The Haitian project is part of a broader undertaking by the U.S. Department of Agriculture to encourage the growing of rubber trees in Latin America. Although the rubber tree is native to the Amazon Valley, the Far East, where 8,000,000 acres have been planted to rubber, has been the only area to exploit it on a vast commercial scale, and has furnished the United States with over 98 per cent of its requirements.

At present, the two Ford plantations in Brazil are the only commercial Latin American ventures, aside from some experimental plantings by Goodyear in Panama and Costa Rica. The Ford plantations are situated on the Tapajós River, a tributary of the Amazon. The first, Fordlandia, was established on a 2,467,000-acre concession obtained from the Brazilian government in 1927. Plantings were begun in 1929 and ultimately 839,000 trees were set out. Native plant material was used, and only a small percentage of the trees were grafted with buds of improved strains. Of the 8,000 acres cleared at Fordlandia, 4,750 are considered productive. Although this plantation has begun to produce, its output is not expected to be significant.

Since the Fordlandia site proved unsuitable for many reasons, a new concession was acquired farther down the Tapajós River, where in 1934 a plantation called Belterra was started on a high, level plateau. There 13,149 acres have been planted to rubber, and over 2,000,000 trees grafted with buds from high-yielding strains obtained in the Far East. It is conservatively estimated that this plantation will begin to yield about nine million pounds or 4,500 short tons of rubber in 1948, which will increase to over 6,000 tons a year. Ford has had to contend with many pests and diseases, particularly the South American leaf disease. Since 1937 expansion has also been handicapped by a shortage of labor.¹²

Goodyear's operations began with the acquisition of 2,800 acres in Panama in 1934, and 1,000 acres in Costa Rica the following year. Recently an additional 1,500-acre tract was bought in Costa Rica. Through constant experimentation, Goodyear has had considerable success in developing a leaf-blight-resistant stock with high yield. In 1940 it concluded an agreement with the U.S. Depart-

ment of Agriculture for interchange of high-yielding plant material with the countries of tropical America.¹³

DEPARTMENT OF AGRICULTURE'S PROGRAM

The Department of Agriculture initiated its own program in 1940, when Congress appropriated \$500,000 for rubber developmental work. It immediately sent five groups to survey potential rubber-growing areas in Mexico, Central America, Haiti, the Dominican Republic and tropical areas of South America. With the cooperation of 12 Latin American countries, plant material was collected and propagating nurseries were started. A number of experimental and research stations were also set up. Meanwhile, much work has been done in combating leaf-disease and in selecting good plant material and budwood. Nearly 15 million rubber seeds have been planted, and large quantities of the most promising varieties of propagating material have been established in Latin America.¹⁴

Nurseries and experimental stations represent only the first step toward growing rubber. It takes two years for a nursery to propagate material for planting. Two more years are necessary to start a plantation, and another five to seven years before the rubber trees on such plantations can be tapped. Because of the prolonged dry season in the areas where Ford is working, rubber trees reach the productive stage two to three years later than in the Far East. While the new plantations will be located in more favorable growing regions, it is unlikely that the United States will be able to get much more than 10,000 tons of plantation rubber annually from Latin America by 1950. Really significant quantities cannot be expected until some years later.

Ultimately, the Department of Agriculture hopes that Latin America will be able to produce from a fourth to a third of United States rubber consumption, or enough to emancipate this country from exclusive reliance on the Far East. Whether this goal can be achieved depends not only on the success of present experiments but on the possibility of interesting capital in the commercial production of rubber in Latin America. The Department hopes that a few central plantations will be established in each country, and that these in turn will be able to stimulate interest on the part of small native farmers and

11. Thomas A. Fennell, "Haiti Makes Rubber History," *Agriculture in the Americas*, July 1941.

12. Data furnished by the *Companhia Ford Industrial do Brasil*. Ford is said to have invested about \$8,000,000 in its Brazilian enterprises, which employ some 2,500 people.

13. Statement by P. W. Litchfield, Chairman of the Board of the Goodyear Tire and Rubber Co., entitled *Rubber's Return to the Western Hemisphere*. See also J. J. Blandin, "Why Rubber Is Coming Home," *Agriculture in the Americas*, May 1941.

14. *Foreign Commerce Weekly*, January 10, 1941, p. 31; also "Our Rubber Problem," *ibid.*, January 17, 1942; and E. W. Brandes, "Rubber on the Rebound—East to West," *Agriculture in the Americas*, April 1941.

planters and provide them with technical assistance. In this way it hopes to minimize the need for a large amount of foreign capital and avoid charges of financial imperialism. The Haitian project has been planned along these lines, but the initial capital has been provided by the Export-Import Bank.

PROBLEM OF ATTRACTING CAPITAL

It may prove difficult to arouse the interest of private native or foreign enterprise, because it is uncertain that rubber can be grown in Latin America at a cost competitive with that in the Far East even though the Department of Agriculture hopes that by concentrating on the cultivation of high-yielding rubber trees the cost differential inherent in higher wages¹⁵ and other factors can be overcome. Perhaps the only way to encourage commercial production in Latin America would be a long-term undertaking on the part of the United States to levy a discriminatory import duty on Far Eastern rubber or to assure Latin American countries a definite share of the market through an import quota system.¹⁶

The United States agreement with Brazil regarding development of raw rubber production in the Amazon Valley and adjacent regions indicates that this country has decided to expedite large-scale production of plantation rubber by investing its own capital. Such an investment, however, would hardly increase rubber supplies during the present war unless the conflict lasts an extremely long time. More rubber can be obtained in Latin America for use in the war, but only by intensifying the tapping of wild rubber trees in the Amazon Valley, or by encouraging the cultivation in Mexico of the guayule rubber shrub which can be made to yield rubber in four or five years.^{16a} Even so, the quantity

15. Although wages in Latin America are low, Ford pays tappers at a rate two or three times as high as that prevailing in the Netherlands East Indies. Goodyear has apparently agreed to pay \$1 a day, which is roughly four to five times as high as the Far Eastern wage.

16. A Peruvian, for example, has written: "Will we be safe in regard to prices by the time our trees become productive? They [the prospective growers] know that, while transportation, distance, time and safety favor South America over the Malay States, we cannot compete in labor costs with the low wage areas of Asia. They know, too, that the war and its accompanying emergency needs will not last forever. So it seems that, in addition to the cooperative planting system, there must be further development of an understanding between producers and buyers, if the future of rubber production in the Western Hemisphere is to be safeguarded adequately." Manuel Sanchez del Aguila, "Peru Is on the Job," *Agriculture in the Americas*, October 1941.

16a. On February 28, 1942 Congress passed an amended bill authorizing the Department of Agriculture to develop up to 75,000 acres of guayule in the Western Hemisphere, and to purchase at a cost not exceeding \$2,000,000 the Intercontinental Rubber Company properties in California. This company has been experimenting with guayule for many years. *The New York Times*, March 1, 1942.

of additional rubber made available in these ways would be small in comparison to this country's needs. Far larger amounts will be produced in a relatively few years through the creation of synthetic rubber plants. The very fact that the United States is now developing a considerable synthetic rubber industry, together with the uncertainty over the place of Far Eastern supplies in the American market after the war, may deter private and native enterprise in Latin America from attempting to cultivate plantation rubber.

STEPS TOWARD INDUSTRIALIZATION

Many of the Latin American countries have also been actively fostering industrialization as a means of obtaining a more balanced economy and achieving greater independence from foreign supplies. Manufacturing received its first big impetus during World War I. The economic depression in the thirties ushered in another decade of industrial expansion and the outbreak of World War II provided still further stimulus. Industrialization has extended not only to the processing and packing of foodstuffs and raw materials for export, but to the manufacture of a large variety of consumers' goods such as textiles, shoes, soap, electrical goods, and even to some of the simpler types of capital goods. Most of the manufacturing for domestic consumption is done in relatively small enterprises financed by both native and foreign capital. In recent years the influx of European refugee capital has helped to bring about a considerable expansion in the number of manufacturing establishments.

The United States government has endorsed this trend toward industrialization, at least in principle. The president of the Export-Import Bank, for example, has written: "Industries must be developed—industries which Europe has never wanted them to have. With the growth of these, the abject dependence upon the exportation of agricultural products will diminish. The standards of living—now much too low—will rise, wealth will increase, and a stronger, happier population will develop."¹⁷

There are only a few cases, however, in which the United States government has assisted actively in the establishment and expansion of industrial enterprises in Latin America. The Export-Import Bank has financed the purchase of industrial machinery by a number of Latin American countries. Part of the \$22,000,000 lent to the Chilean Development Corporation is being used for this purpose. In September 1940 the Bank also provided Brazil with \$20,000,000 to purchase materials and equipment in the United States for a large iron and steel mill to

17. Warren Lee Pierson, "Latin America and the Export-Import Bank," cited.

be erected near Rio de Janeiro. This enterprise, which is capitalized at \$25,000,000, will be owned entirely by Brazilians, although the Export-Import Bank will retain considerable control over its management until the loan is repaid.¹⁸ United States steel concerns are giving technical advice in designing and constructing the mill; and will lend personnel for the training of native labor. Orders for equipment have been given priority ratings. Ground-breaking operations began in the middle of 1941 and the project is expected to be completed in 2½ to 3 years.¹⁹ Using Brazilian iron ore, manganese and coal, the mill will ultimately produce half of the country's total steel requirements and will make it virtually independent of heavy steel imports.

BRAZIL TO MANUFACTURE AIRPLANE ENGINES

Another step toward the industrialization of Brazil was taken on February 23, 1942, when it was announced that Wright aeronautical engines of the medium horsepower class would be built under license in a plant to be erected near Rio de Janeiro. While technical assistance and much of the raw material will come from the United States in the initial stages of production, Brazilian firms will turn out forgings and other engine materials, and an attempt will be made to organize a Brazilian aluminum industry. The motors to be constructed when the plant goes into production in August 1942 will range from 235 to 450 horsepower—sizes used in training and private planes and in United States Army medium tanks.²⁰

The growth of manufacturing in Latin America is largely dependent on foreign supplies of industrial machinery and equipment. With the United States involved in war, Latin American nations may in the future be unable to obtain any machinery other than that which will help them to ship larger quantities of strategic and critical materials to the United States. This country, however, may find it more economical in some cases to provide Latin America with manufacturing equipment than to keep it supplied with finished goods. At any rate, it is likely that wartime shortages of manufactured goods will strengthen the conviction of many Latin American governments that every effort should be made to develop their own industries in the future.

PUBLIC WELFARE A TEST OF NEW PROJECTS

Ultimately, Latin America will undoubtedly become more industrialized. As long as industrial development is carried out on sound economic lines, it should be of benefit both to the United States and its southern neighbors. Each new industrial prospect will have to be examined to see whether it will actually bring about a more productive use of labor and resources and thus raise the standard of living of the indigenous population. The growth of manufacturing will, of course, deprive this country of part of its markets, particularly for the simpler types of consumer goods. In the end, however, the United States may gain through the enhancement of Latin American purchasing power and larger sales of heavy industrial equipment. Moreover, Europe, rather than North America, has supplied Latin America with most of the cheap products which would be displaced. The United States will probably continue to find a market for the bulk of its export specialties—heavy machinery, railway equipment, agricultural implements, tractors, motor vehicles, office machinery, sewing machines, and so forth.

There is a danger, however, that industrialization might be effected indiscriminately, without benefit to the public welfare. In many respects, conditions are not suitable for large-scale industrial development in Latin America. Although virtually all the countries of that region produce raw materials, few possess resources of coal and power sufficient for the establishment of large industries. Technical knowledge and skilled labor are still lacking for the most part, and domestic markets are often too small to permit the adoption of modern production methods. In many cases consumers' goods are produced at costs considerably above those abroad, despite the prevalence of much lower wages. The inevitable result is a decline rather than an increase in the standard of living. It will be the responsibility of the United States, through its ability to supply or withhold technical assistance, credit and equipment, to help in guiding industrialization along sound lines. The Latin American nations can also assist the process by agreeing among themselves to admit the products of each other's new industries free of import duties. Argentina and Brazil created a precedent of this kind on November 21, 1941 when they concluded a trade treaty stipulating that each country will grant duty-free entry to goods produced by new industries in the other country over a period of ten years. Both governments, moreover, promise not to establish new duties on Argentine and Brazilian goods now produced on a small scale. They also

18. See "Export-Import Bank Loans to Latin America," *Foreign Policy Reports*, June 15, 1941, p. 87.

19. *Mineral Trade Notes*, August 20, 1941, p. 6.

20. For details on agreement between the Brazilian government and the Wright Aeronautical Corporation, see *The New York Times* and *New York Herald Tribune*, February 24, 1942.

undertake gradually to reduce or eliminate duties on each other's major non-competitive products.²¹

INTER-AMERICAN DEVELOPMENT COMMISSION

Up to the present, the United States has promoted the development of Latin American resources largely through direct contact between its own agencies and individual governments. In the future, more projects of this kind may be canalized through the Inter-American Development Commission, which was formally organized on June 3, 1940 as a working unit of the Inter-American Financial and Economic Advisory Committee. This Commission, which is chaired by Nelson A. Rockefeller and includes two United States and three Latin American members, undertakes to foster inter-American economic relations by stimulating the production of non-competitive mineral, agricultural and forestry products, and by encouraging manufacturing. It is to act as a clearinghouse of information on all products which might be developed in Latin America or marketed in other American countries. In cooperation with the Latin American governments, it has established in every American republic a national commission which will supply information on the possibilities of developing production and trade. Since its work has only just begun, the Commission has as yet few concrete achievements to its credit. It has persuaded North American consumers of tapioca to help Brazilian producers with the erection of modern plants which can make tapioca of the quality required by the United States market. It has also interested retail buyers and heads of department stores in the United States in the purchase of handicraft articles in Latin America. In addition, it has organized a Merchandising Advisory Service in New York which will assist North American distributors in finding new sources of supply in Latin America for articles formerly obtained elsewhere, and counsel Latin American producers and exporters on sizing, styling and packaging their goods to attract purchases in the United States.

PLANS FOR AN INTER-AMERICAN BANK

An Inter-American Bank to act as a financing agency has also been projected. A convention for the establishment of such a Bank was drafted by the Inter-American Financial and Economic Advisory Committee and opened to signature on May 10, 1940.²² Its capital, consisting of 1,000 shares with a total issue value of \$100,000,000, would be sub-

scribed by the participating governments roughly in proportion to their share in the total dollar value of the foreign trade of the American republics. In general, the Bank would assist in stabilizing currencies, function as a clearinghouse for the transfer of international payments and promote the development of industry, public utilities, mining, agriculture and commerce in the Western Hemisphere. To this end it would be authorized to extend short-term, intermediate and long-term loans and credits; deal in foreign exchange, currencies and precious metals; make and accept deposits and accounts; and so forth. The Bank was intended to complement rather than compete with existing banking institutions, and to supplement the work of the Export-Import Bank.

As has often happened with other inter-American agreements in the past, the Bank Convention has not yet gone into effect. In fact, Mexico, the country which originally proposed the Bank, has alone ratified it. Most Latin American nations, including Argentina and Chile, have not even signed it, perhaps in part because of the financial burden involved in subscribing the Bank's shares. The United States has signed the agreement, but the Senate has so far failed to consent to its ratification. As long as the Inter-American Bank does not function, it may be assumed that the Export-Import Bank will remain the chief source of capital needed for developmental projects.

TRADE AGREEMENTS WITH LATIN AMERICA

Meanwhile, the United States has continued to create new opportunities for inter-American commerce through the negotiation and conclusion of trade agreements. Since the outbreak of war it has concluded two supplementary, preferential agreements with Cuba—one on December 18, 1939 and the other on December 23, 1941. The latest of these, which became effective on January 5, 1942,²³ reduced the duty on Cuba's most important product, sugar, from 90 cents per 100 pounds to 75 cents, and contained a formal assurance that every effort would be made to maintain Cuba's position in the United States market as a supplier of sugar. In addition, this country granted concessions on Cuban molasses and syrups, unstemmed wrapper tobacco, stemmed and unstemmed filler tobacco, scrap tobacco and cigars, as well as on certain tropical fruits, fruit pastes and pulps, fresh, chilled, or frozen beef, and frogs legs. In return, Cuba accorded the United States further tariff reductions on 30 items, including certain fruits, vegetables and a few manufactures, and bound rates against increase on eight other items.

21. For text, see *La Nación* (Buenos Aires), November 22, 1941.

22. For the text of this convention and the proposed by-laws of the Bank, see *Department of State Bulletin*, May 11, 1940, pp. 512-22.

23. For text of this agreement and an analysis of its provisions, see *ibid.*, December 27, 1941.

With Argentina the United States concluded an agreement on October 14, 1941 which has helped considerably to remove chronic economic friction between the two countries. The United States not only granted concessions on a number of articles normally supplied by European nations, but also accorded tariff reductions on such important Argentine products as linseed, canned meats, quebracho extract, casein, cattle hides, high-grade wools and fresh fruits.²⁴ Negotiations with Uruguay, which is already benefiting from many of the advantages of the Argentine agreement, were first announced on May 13, 1941 and are still proceeding.²⁵ On December 29, 1941 the State Department also issued a formal notice of its intention to negotiate with Peru.²⁶ Among the products on which concessions may be made are Peruvian long-staple cotton, which has been virtually excluded from the United States market as a result of the high tariff rate imposed in 1930. This country, as well as Peru, may also benefit from a reduction of the duty on Peruvian sugar, of which the United States will be in great need during the war. Negotiations with Chile, announced in October 1939, are at present inactive. The United States and Mexico, however, are proceeding with the conclusion of a trade agreement in accordance with the terms of an all-inclusive settlement of outstanding issues reached on November 19, 1941.²⁷

Such agreements are of limited value during wartime, when tariff rates exercise much less influence on the volume of international trade than factors like transportation facilities, priorities, and so forth. They do, however, help to compensate in some cases for the loss of markets outside the United States, and lay a sound basis for the revival of a flourishing, more normal commerce in post-war years. They should be considered primarily as long-term measures.

TRANSPORTATION PROBLEMS

In the long run, the development of inter-American trade depends on improvement of transportation. Vast distances and natural barriers like mountains and jungles have always seriously hampered commerce among the Americas. The United States has been keenly aware of the need for better means of transportation. Its subsidies have enabled Pan American Airways and Pan American-Grace

to extend their network all over Latin America. The number of American-flag ships on Western Hemisphere trade routes has been greatly increased. The Export-Import Bank has financed substantial purchases of railway equipment and road-building machinery by Latin American countries.

THE PAN AMERICAN HIGHWAY

This country has also shown great interest in accelerating the completion of the Pan American Highway, which will ultimately extend through Mexico and Central America, down the west coast of South America to Santiago, Chile, thence to Buenos Aires and up the east coast to Rio de Janeiro. As the result of 16 years' work, two-thirds of the 11,000 miles are now traversable. There are, however, important gaps, as well as enormous stretches of bad surfaces. In Ecuador a considerable portion remains to be finished. Three hundred miles of virtually unexplored jungle still separate the Central and South American parts of the highway. The road between Mexico City and Guatemala has not yet been constructed, and stretches in Honduras, Nicaragua, Costa Rica and Panama remain to be completed.²⁸

The United States has furnished technical and financial assistance for the construction of the highway. The Public Roads Administration has lent surveyors and engineers to Latin American countries, and the Export-Import Bank has made numerous loans for road-building. The Bank granted Nicaragua a loan of \$1,700,000 in 1939 for the construction of a section of the highway, and lent Costa Rica \$4,600,000 in 1940 for the same purpose. Panama has received an appropriation of \$1,500,000 and a loan of \$2,500,000 for a defense highway, part of which will serve as a section in the Pan American system.

In accordance with a request transmitted by President Roosevelt in May 1941, Congress finally passed a law in December appropriating \$20,000,000 to assist the Central American republics in surveying and building the highway within their borders.²⁹ Each of the republics will have to assume at least one-third of the proposed expenditures, although it may use money borrowed from the Export-Import Bank to defray its share of the cost. Costa Rica will receive about \$5,400,000 of the \$20,000,000.³⁰ Most of the remainder will be spent in Nicaragua, and the balance will be allocated for

24. For an analysis of the agreement, see J. C. deWilde and Bryce Wood, "U. S. Trade Ties with Argentina," *Foreign Policy Reports*, December 1, 1941.

25. For announcement of negotiations and list of products involved, see *Department of State Bulletin*, May 17, 1941. Uruguayan exports to the United States are in many respects similar to those of Argentina.

26. *Ibid.*, January 3, 1942.

27. *Ibid.*, November 22, 1941.

28. See E. E. Valentini, "The Pan American Highway," *Bulletin of the Pan American Union*, July 1941; also B. P. Root, "Highways in Latin America," *International Reference Service*, October 1941.

29. *Public Law 375*, 77th Congress, 1st session. The law was approved on December 26, 1941.

30. "Lifeline of the New World—The Pan American Highway," *Foreign Commerce Weekly*, January 24, 1942.

completion of the road in Panama and El Salvador, as well as improvement of the Guatemalan section, which is already finished. In addition, the Export-Import Bank agreed last November to lend Mexico \$30,000,000 for road construction. The expenditure of these sums will probably enable the American nations to complete the road up to the Canal within about two years. By making possible the overland transportation of men and supplies to the Panama Canal and facilitating the movement of strategic commodities to the United States, the inter-American highway will contribute to the defense of this country even during the present emergency. In the long run, moreover, it should do much to foster inter-American trade and tourist traffic and to open up new lands to development.³¹

Road construction in South America has also been aided by loans from the Export-Import Bank. In 1941 the Bank lent Ecuador \$900,000 with which to construct four sections of road, including its unfinished portion of the Pan American Highway.³² The largest loan to South America was made on January 28, 1942, as part of a Bolivian development program involving an outlay of \$25,000,000. In an agreement with Bolivia the Export-Import Bank undertook to extend a credit of \$10,000,000 to a corporation which will devote most of the money to construction of a 225-mile highway from Cochabamba to Santa Cruz, linking the country's agricultural and mining centers.³³

ECONOMIC COLLABORATION AT RIO

The Third Meeting of Foreign Ministers of the American Republics, held at Rio de Janeiro in January 1942, was convoked primarily to discuss the emergency measures of collaboration demanded by the existing war situation. Throughout the conference, however, post-war necessities were always present. Obviously, many of the aspects of economic mobilization for hemisphere defense cannot be sharply terminated at the conclusion of the conflict. Latin American nations would be reluctant to undertake the production of strategic materials, sometimes at an uneconomically high cost, without some assurance that readjustments to peacetime needs would be made gradually, or at least without undue loss to themselves. Thus, in framing recommendations on this problem, it was specifically suggested that:

"In so far as possible, the increase of production be assured by bilateral or multilateral agreements or contracts which provide for purchases during long

periods at prices which are equitable for the consumer, remunerative to the producer and which provide a fair standard of wages for the workers of the Americas, in which producers are protected against competition from products originating in areas wherein real wages are unduly low; and which make provision for the period of transition after the war and the readjustments which will follow in a manner guaranteeing the continuance of adequate production and permitting the existence of trade under conditions equitable to producers."³⁴

Preoccupation with the post-war period is also visible in the recommendation that "the service of financial obligations incurred to maintain and stimulate production in each country be made conditional, in so far as possible, upon the proceeds of its exports."

In order to give some protection, moreover, to certain emergency industries that might normally be considered uneconomic, the conference resolved:

"That the nations of the Americas stimulate the development of the basic production of each of them, avoiding in so far as possible the establishment or expansion of production of substitute or synthetic commodities which is economically artificial and might displace the consumption of natural products available in other American nations, there being excepted only those industries which are indispensable for national defense provided that such defense needs cannot be effectively met with natural products."³⁵

The loophole is obviously left to provide for the synthetic rubber industry.

BUILDING FOR THE FUTURE

A number of other resolutions involve subjects with ramifications extending far beyond the period of the war. For example, the effects of steps taken to improve transportation facilities on land, on sea and in the air, under the general provision of a declaration on the mobilization of transport, can scarcely be confined to the years of belligerency.³⁶ Also containing noteworthy implications for the future is a recommendation "that the Governments of the American Republics, as a means of promoting the development of commercial interchange among them, study the desirability of making an exception in the commercial agreements which they conclude with nations outside the Western Hemisphere of the treatment which they

31. E. W. James, "Artery of the Americas," *Agriculture in the Americas*, June 1941.

32. *Bulletin of the Pan American Union*, July 1941, pp. 432-33.

33. *The New York Times*, January 29, 1942.

34. For text of entire Resolution No. 2 of the Third Meeting of Foreign Ministers, on production of strategic materials, see the Final Act of the Meeting, *Department of State Bulletin*, February 7, 1942, pp. 119-20.

35. Resolution No. 9, *ibid.*, p. 126.

36. See Resolution No. 4, "Mobilization of Transport Facilities," *ibid.*, pp. 122-24.

extend in commercial and customs matters to all of the other American Republics."³⁷

A further resolution pregnant with long-term possibilities is that dealing with the establishment of an international stabilization fund, the text of which is reproduced below.

"Whereas:

"1. A more effective mobilization and utilization of foreign exchange resources would be of assistance in the struggle against aggression and would contribute to the realization of the economic objectives set forth at the First and Second Meetings of the Ministers of Foreign Affairs of the American Republics at Panama and Habana; and

"2. The American Republics which are combined in a common effort to maintain their political and economic independence can cooperate in the creation of an organization to promote stability of foreign exchange rates, encourage the international movement of productive capital, facilitate the reduction of artificial and discriminatory barriers to the movement of goods, assist in the correction of the maldistribution of gold, strengthen monetary systems, and facilitate the maintenance of monetary policies that avoid serious inflation or deflation.

"The Third Meeting of the Ministers of Foreign Affairs of the American Republics

Recommends:

"1. That the Governments of the American Republics participate in a special conference of Ministers of Finance or their representatives to be called for the purpose of considering the establishment of an international stabilization fund;

"2. That the conference in considering the establishment of such a fund shall formulate the plan of organization, powers and resources necessary to the proper functioning of the fund, shall determine the conditions requisite to participation in the fund, and shall propose principles to guide the fund in its operation."³⁸

The Governing Board of the Pan American Union is now making preparations for the conference envisaged in this resolution.

It will be observed that most of the agreements reached at meetings of the Foreign Ministers of the American Republics are essentially statements of principle, exhortation and intention, which must be implemented by more concrete and detailed arrangements prepared outside the conferences themselves. For this purpose there have been created a number of specialized committees, some of whose work has been described in this and the previous FOREIGN POLICY REPORT.³⁹ At the Rio conference the Inter-American Financial and Economic Ad-

visory Committee and the Inter-American Development Commission were charged with several new functions. The two groups, for instance, are to create a permanent international body of technical experts ready to study the natural resources of each country when so requested by its government.⁴⁰ It is recommended that the Committee convoke a conference of central bank representatives, at an opportune moment, to draft uniform standards of procedure for financial transactions involving "real or juridical persons who are nationals of a State which has committed an act of aggression against the American Continent."⁴¹ In a resolution dealing specifically with post-war problems, moreover, the Committee is entrusted with the task of preparing for an Inter-American Technical Economic Conference for their study.⁴²

WAR NEEDS TO EXPEDITE LATIN AMERICAN DEVELOPMENT

The promotion of agricultural diversification, industrial development and inter-American trade and transportation will help Latin America gradually to attain fuller utilization of its resources and higher standards of living. The United States had been making a modest contribution toward these objectives when it was itself engulfed by war. The immediate and paramount necessity of prosecuting the war to a successful conclusion inevitably entails the postponement of those long-term plans relating to Latin America which are not pressing or may demand materials and labor more urgently needed elsewhere. Thus industrialization projects in Latin American countries may have to be delayed in so far as they require equipment, technical assistance or raw materials from the United States. To some extent, the war may even retard and hamper economic diversification in Latin America. It is stimulating the output of mineral raw materials for the abnormal wartime needs of the United States and may therefore create difficult problems of post-war readjustment. It may also foster overproduction of sugar in Cuba, which has long struggled to emancipate itself from a one-crop economy and to develop a better balanced agriculture. In other respects, however, the war may aid in the development of Latin American resources. It will greatly increase the cultivation of agricultural products, many of which are indigenous to Latin America but have hitherto been grown on a commercial scale only in the Far East, notably rubber. Wartime needs will also hasten the completion of long-term projects for the improvement of inter-American transportation and communications.

37. Resolution No. 7, *ibid.*, p. 125.

38. Resolution No. 15, *ibid.*, p. 127.

39. J. C. deWilde, "Wartime Economic Cooperation in the Americas," *Foreign Policy Reports*, February 1, 1942.

40. Resolution No. 8, *Department of State Bulletin*, February 7, 1942, pp. 125-26.

41. Resolution No. 6, *ibid.*, p. 125.

42. Resolution No. 25, *ibid.*, pp. 134-35.

U. S.-Brazilian Economic Accords of March 3, 1942

BY DAVID H. POPPER

BY the negotiation of a series of important agreements signed on March 3, 1942, Brazil and the United States have inaugurated new measures of mutual assistance which will be of great benefit to hemisphere defense and the war effort of this country. The pacts are a direct outgrowth of the principles elaborated and the conversations begun at the Rio de Janeiro meeting of the American Foreign Ministers. They lay the basis for greater production of strategic materials by Brazil—especially rubber and iron ore—while in return the United States increases the pace of Brazilian rearmament under the terms of the Lend-Lease Act.

The agreements, concluded after several weeks of negotiation in Washington by Dr. Arthur de Souza Costa, Brazilian Finance Minister, are embodied in diplomatic notes and business contracts containing the following general terms:

1. The productive resources of Brazil are to be mobilized and a line of credit of \$100,000,000 is to be made available by the Export-Import Bank for this purpose.

2. Assistance to Brazil is to be expanded under the terms of the Lend-Lease Act of March 11, 1941. Details regarding the equipment and aid to be furnished to the Brazilian government have been withheld from publication.

3. A \$5,000,000-fund is to be established by the Rubber Reserve Company, a United States government agency, to be used in collaboration with the Brazilian government in developing the raw rubber production of the Amazon Valley and adjacent regions. The Rubber Reserve Company agrees to purchase Brazilian raw rubber for a period of five years.

4. Officials of the Export-Import Bank and the Metals Reserve Company have signed agreements with the Brazilian Finance Minister and the British Ambassador for development of the Itabira iron mine properties and the Victoria-Minas Railroad, their outlet to the coast, with accompanying arrangements for the acquisition by the United States and Great Britain of the high-grade iron ores to be produced in these

properties. To expedite this development, the Export-Import Bank will lend Brazil up to \$14,000,000 for rehabilitation of the railway, the opening up of the mines, and the improvement of ore-loading facilities at the port of Victoria, in the state of Espírito Santo. The Brazilian government is expected to acquire both the mining properties and the railroad. The Itabira ore is known to be of the highest quality and will no doubt replace, particularly in Britain, the high-grade Swedish ore which was extensively used for special purpose steels until the supply was cut off by Germany's Norwegian campaign.

While the agreements contain no stipulation preventing the development of plantation rubber in Brazil, it is evident that, because of the need for quick production, primary emphasis must be laid on the tapping of wild rubber trees in the jungle. According to Acting Secretary of State Sumner Welles, wild rubber production may be raised to 60,000 or 70,000 tons a year as a result of the agreements. In this connection, however, the limiting factors mentioned in the first article of this issue of FOREIGN POLICY REPORTS should be borne in mind.

Once the initial rubber project is established, it will be expanded with the aid of a portion of the \$100,000,000-credit. These funds will also be used to stimulate the output of many other strategic minerals and vegetable products. A Brazilian government agency is to be established to promote the new projects within the republic. In order to avoid unsound ventures, Acting Secretary Welles has emphasized that new enterprises will be undertaken after agreement between the two governments and with appropriate North American technical assistance. He has also stated that, while the United States desires to develop the Brazilian economy, any projects requiring large shipments of machinery or equipment will be approved only if they contribute in an important manner to the war effort or to hemisphere security. If these conditions are clearly understood and observed, the Brazilian-American agreements should prove of great advantage on both sides.

In the March 15 issue of FOREIGN POLICY REPORTS:

EUROPEAN AGREEMENTS FOR POST-WAR RECONSTRUCTION

by Vera M. Dean

APR 21

1978